RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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April 14, 1993 **LETTER 1119**

April 2 DJIA 3370.81; PTI 3752; A-D Ratio -5.19
April 8 DJIA 3396.48; PTI 3762; A-D Ratio -5.16
Dow Yield: 3.02%; Dow Price/Earnings: 35.5
Dow 200-day MA: 3314; Dow 30-day MA: 3451
Dow Times Book Value: 2.61; PTI 89-day MA: 3710
Percentage of Undervalued Blue-chips: 7%
Low Risk Buy Index: +72

THE MARKET: What are we to say about this strange, erratic bull market?

(1) The S&P 500 is now selling at 36 times dividends. Only twice before in all market history has the price-to-dividend ratio been higher. Once reaching a price of 36 times dividends, a major market decline or bear market has never been avoided. That's the BIG picture, and it's the major constraint on this market. How it all works out from here will be fascinating (and if history repeats -- costly).

(2) April 2 saw Philip Morris, one of the major holdings of the funds, take a huge hit along with almost all the tobacco issues. Thus the tobacco stocks join the pharmaceuticals, the biotechs, the computers, the pollution controls, along with many consumer issues, plus hundreds of other assorted issues that have been whacked in this strange, micro-yield, high altitude area of the bull market.

(3) Last week saw the D-J Transportation Average hit new record highs as it surged above the 1600 level for the first time in history. So far, the Dow has not confirmed (Dow would have to better **3478.34** to confirm). Trouble? We'll see.

(4) Despite the rising trend in the major market averages, many stocks drop by the wayside. A great many mutual funds, at this writing, are showing a loss for 1993.

Is it still a bull market? Not according to my old friend, Joe Granville. Writes Joe in his latest report, *"Most stocks peaked in January . . . In January 1992 I detected that the stock market had developed cancer. I detected a malignant tumor that had embraced many leading stocks and that tumor grew and grew until today it is inoperable and the diagnosis is that the stock market as a whole is a terminal case."*

Harsh words from an old market hand; words to make you wonder. Despite what Joe says, my work indicates that the bull market is still intact. Subscribers should remember, however, that in Letter after Letter I have warned that when you're paying 36 dollars for every one dollar of S&P dividends, the bull market is treading on very thin ice.

And I wonder, is what we're experiencing today Wall Street's version of the Chinese water torture? Are the major stock averages fated to meander around their highs for months on end while this group and that group, this stock and that stock -- gets pulverized? That's about what's been happening -- even though, ironically, the despised gold group has been the biggest gainer of 1993.

As to indicators, my Primary Trend Index struck a record high of 3770 on April 12. There's no question about it, despite the sloppy market performance, the PTI remains in its bullish mode (see page 2 chart). When a real, bona fide bear market finally takes hold, believe me, the PTI will head down and down (veteran subscribers remember the action in 1973 and 1974).

The advance-decline ratio recorded a high of -4.65 on March 10. But as of this writing the A-D ratio has still not sustained a decline of as much as one point. Until it does, the "buying stampede" that I discussed in the last two Letters -- will continue intact.

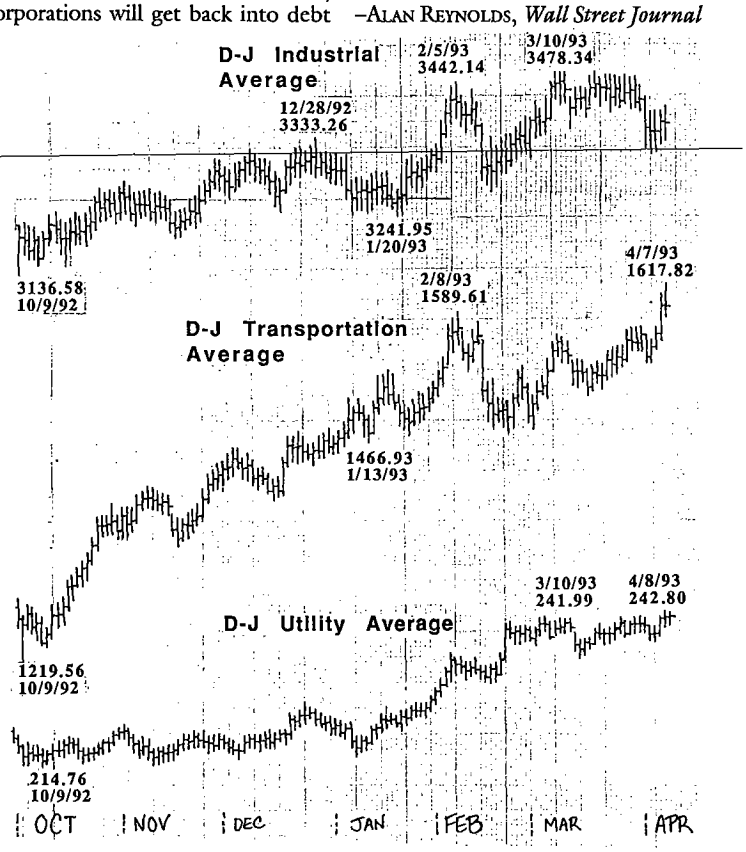
One of the strange phenomenons of this period (and I've been writing about this for months) is the persistent decline in the M-2 money supply. *Market Logic* out of Ft. Lauderdale notes, *"Real M-2 (the broadly defined money supply adjusted for inflation) has eased below its 50-week moving average, defining a new downtrend. Real M-2 is now virtually unchanged from its level of five years ago." Market Logic* adds that "expanding monetary aggregates are one of the requisites of a bull market."

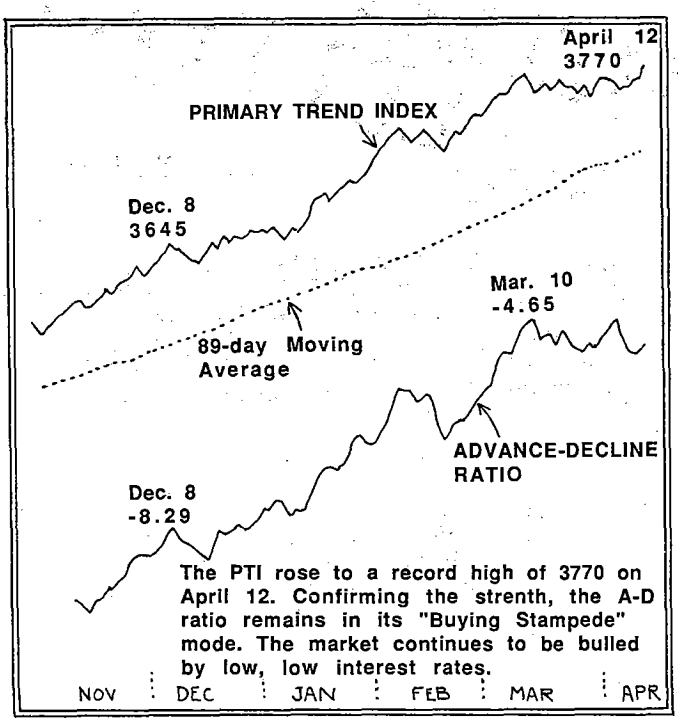
THE PICTURE: I'm starting this section with a piece that was reprinted in the latest issue of *Forbes*. I believe the writer is correct -- Clinton's tax-and-spend program is going to result in an economic squeeze. The program will be basically deflationary in that it will be bad for people and bad for the economy.

HIGHER U.S. TAX RATES, if enacted, will soon yield less revenue, not more. Two-earner families will become one-earner families, executives will take more pay in the form of perks and pensions, middle-aged men and women will retire younger, fewer young people will bother to earn advanced degrees or risk starting new businesses, investors will shift into tax shelters and tax-free bonds, corporations will get back into debt to minimize taxable profits.

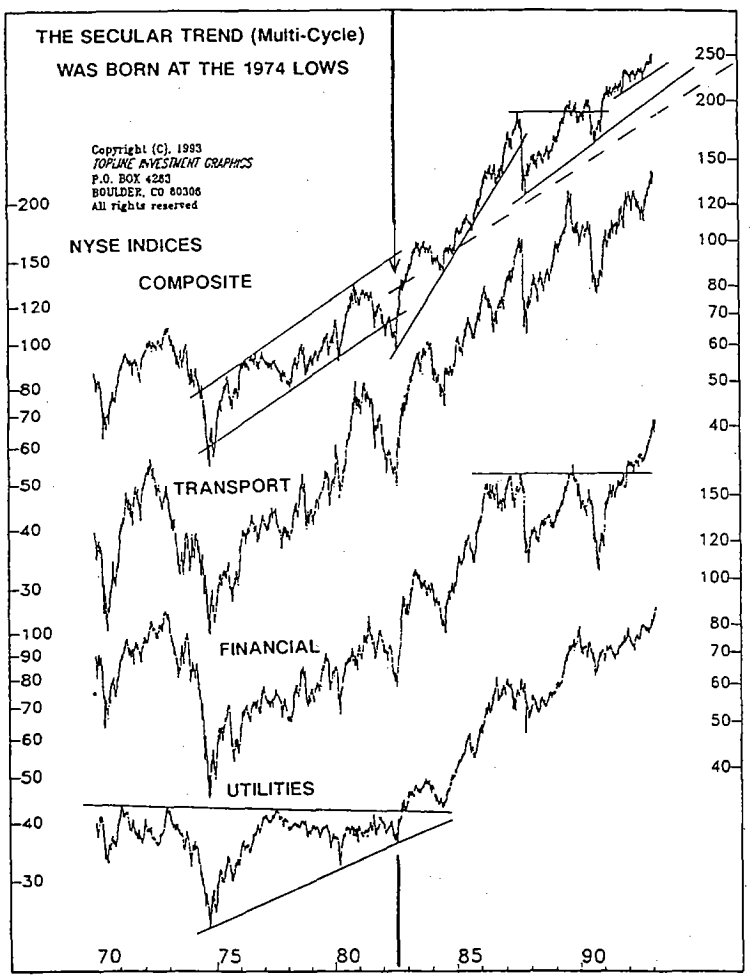
Economic growth and jobs will suffer, just as they did when Canada, Germany and Japan imposed higher income and sales tax rates in 1990. Add it all up, and the President's tax proposals must leave us with a much weaker U.S. economy for years to come, converting a manageable budget problem into a full-blown economic crisis.

–ALAN REYNOLDS, *Wall Street Journal*





What will be the reaction to the deflationary Clinton program? The Fed will be forced to step even harder on the re-inflation pedal. As I emphasized in the last Letter, with a grand total of $15.3 trillion in debt overhanging the US, this nation is in the position where it must "inflate or die." There's just no question about it -- when the economy starts sliding, when a slowdown looms, the US will do what it always does -- it will prime the pumps in an all-out effort to re-inflate.

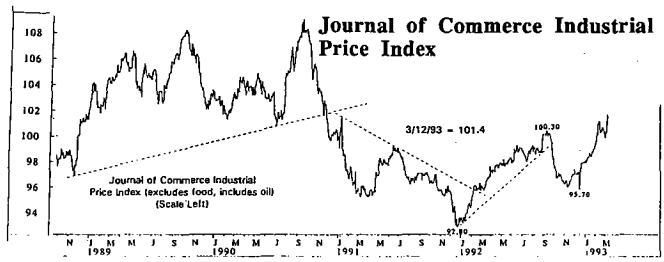


Meanwhile, American consumers are preparing themselves for the Clinton program. The American consumer's sentiment is clear enough. It is described in the following comment -- *the Conference Board reports that Consumer Confidence in March sank again, the third decline in the last three months.*

Yes, you and I and our neighbors and our friends aren't stupid, we know what the Clinton tax-and-spend program means. The program means that jobs will be harder to find, that we'll have less to spend, and that our taxes will be more of a burden than ever. We might as well face it, the last thing in the world this country needs is higher taxes and more government spending. But that's exactly what the Clinton program is going to give us.

Incidentally, a late *USA Today/CNN Gallup Poll* finds that Clinton's job-approval rating has sunk to 52%. This is the lowest rating for any president at this point in his term since such measures began during the Eisenhower Administration. From the looks of it, the Clinton honeymoon is over.

INFLATION: The early indications of inflation are showing up: M-1 money supply ballooning, rising CRB Commodity Futures Index, raw materials going up, gold and silver prices pushing higher, bonds topping out, oil over $20 a barrel, home prices firming in many parts of the nation, land prices creeping higher.



One problem: there are trillions of Eurodollars in bank deposits overseas. If the US inflates, the purchasing power of those overseas dollars will decline. If this is the expectation of overseas dollar-holders (and I think it is), then they will move to protect themselves. How will they protect themselves? They'll do it by swapping dollars for D-marks, yen, Swiss francs, gold, you name it. But they'll sell dollars. And I think that's what we're starting to see now. (Note: the dollar so far this year is down 9% against the Japanese yen, hardly comforting for Japanese who invested in the US.)

PERSPECTIVE: It's easy to get caught up in the excitement of short-term action and developments. But it's important to keep your eye on the BIG picture, and for the big picture it's necessary to study long-term charts.

The chart at left was drawn by computer whiz John Carder by way of Ian McAvity's excellent "*Deliberations*" report. What we see on this chart is the profile of history's greatest bull market, a bull market that began in late-1974 and one that has continued to the present.

Since the 577 low of 1974 the Dow has advanced to a 1993 high of 3478. That represents an increase of 503%. Over the same period, the D-J Transports have risen from a 1974 price of 125 to a recent price of over 1600, an astounding increase of 1,194%.

In duration, the 1974-93 bull market is already 19 years old, which makes it older than any other bull market in American history. The huge 1949-66 bull market lasted 17 years, and that one literally died of old age.

As a comparison, the famous bull market of the 1920s took the Dow from 64 in 1921 to 381 in 1929, a rise of 495% which occurred over a period of eight years. Therefore, the Dow's percentage rise in the current bull market is comparable to the Dow's percentage rise in 1921-29. But the lowly Transports (how they were despised in 1974, remember?) have far outperformed the Industrials.

Of course, all of this is history. The question on everyone's mind now is -- the stock market has enjoyed a huge rise, but where do we go from here? Bob Prechter, the Elliott Wave expert, expects the Dow to rise to the 3600-3700 area, prior to what he believes will be the worst bear market in US history. Others, more optimistic, are predicting Dow 4000 or even 5000.

Meanwhile, the short position on the NYSE continues to build to record highs, the margin accounts on the NYSE are rising strongly (a bullish indication), many analysts are issuing warnings (contrary opinion here) -- so normally one would NOT expect a big bull market to top out under these conditions.

BUT valuations remain extremely thin with the Dow yield at the 3% level and the yield on the much broader S&P 500 at the 3.80% level. *IQ Trends'* percentage of Undervalued Blue-Chip Stocks got down to 6%, the lowest level ever. All this adds up to time-honored danger signals.

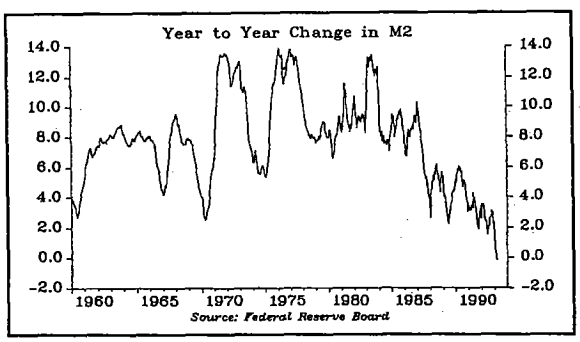
The questions -- How could the massive 1974 to 1993 bull market have happened? How could it have risen this high and how could it have lasted this long?

Answer -- One thing I've learned in life is that everything is a trade-off. Powerful tyrants are murdered, kings become decrepit, wealthy men get cancer, beautiful women get wrinkles, world champion boxers go to jail. Joan Baez said it in song, "Nothing is given to man." Or as the good book says, "The Lord giveth and the Lord taketh away."

So again -- how could this great bull market have happened? How could it last 19 years and still appear to be intact? My belief is that even here there's been a trade-off, and the trade-off is that in order to build the greatest bull market in history we have also built the greatest mountain of debt the world has ever seen.

On top of that, we have harnessed the power of inflation. In so doing, we have destroyed the purchasing power of our money. We have separated the dollar from gold. And we have turned the dollar into a floating, fiat currency. In order to support and sustain the massive $15.3 trillion in total debt that now burdens America, we now MUST inflate, inflate and inflate. There's no other way out.

Jim Grant in his latest "*Interest Rate Observer*" notes, "The Fed continues to monetize the debt at double-digit annual rates, and the narrow definition of money, M-1, which consists of checking accounts, NOW accounts, currency and travelers' checks, continues to show brisk year-over-year growth. The federal funds rate is zero, or even less than zero, after adjustment for inflation. However, the broader definitions of money supply stagnate or contract. Bank credit contracts. The rate of growth in finance company lending falls. The rate of turnover in checking accounts, even of hyperactive New York City checking accounts, declines."

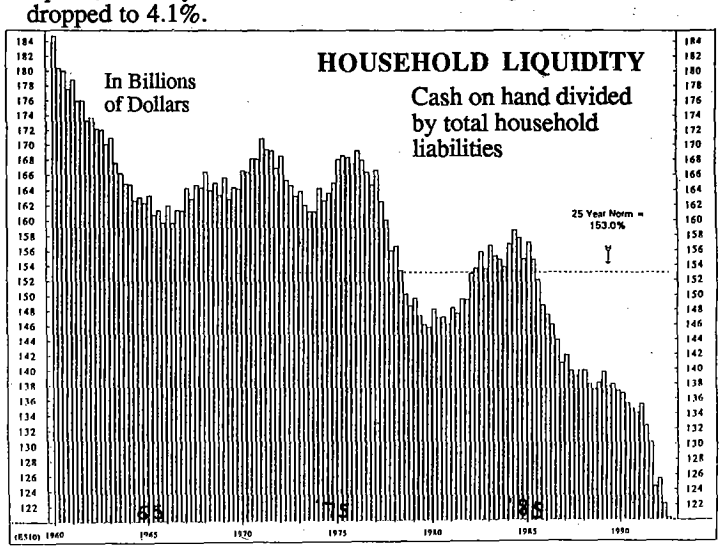


So it's a fierce problem. Here's the Fed, pumping for all its worth, and they still can't get the M-2, M-3 or M-4 money supply figures to rise. The Fed is frantic to re-inflate, they must re-inflate -- they know the penalty for failure. The penalty is deflation and a slide back into recession -- or worse.

MORE ON THE BOOM: I mentioned that the huge bull market that began in 1974 and has lasted to the present was built on debt, debt and more debt. These two charts by *Ned Davis Research* are worth studying.

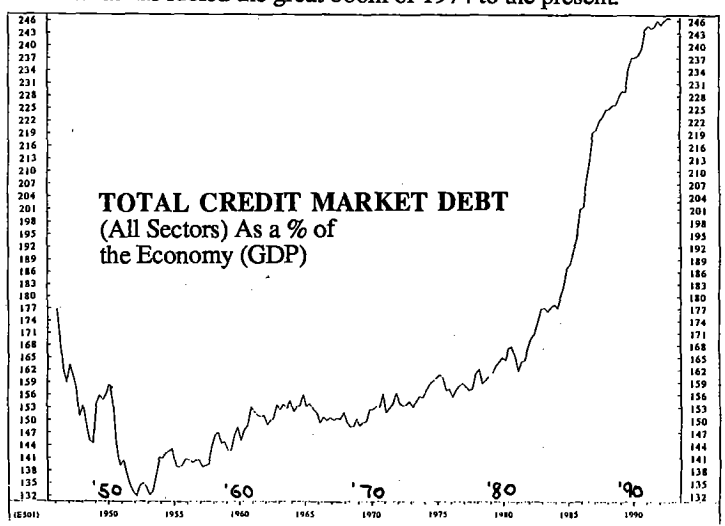
The chart below depicts American Household Liquidity from 1960 to the present. Here we see Household Liquid Assets (cash on hand) divided by total household liquidity. At this point, US households are at their lowest liquid position in modern history. In other words, their debt literally equals their cash on hand.

The administration and the Fed are wondering why the money supply isn't growing (the money supply grows when the banks lend). Maybe this chart provides the answer. Americans are squeezed. They are borrowed out. The savings rate in February dropped to 4.1%.



The second chart, also by *Ned Davis*, shows total credit market debt as a percentage of the Gross Domestic Product. In other words, it's the total amount of debt as a percentage of the US economy. And it's been booming. So what we see here is a parabolic rise in the ratio, and more recently what looks like the early topping out of this ratio.

What would it mean if this ratio really does top out and then turn down? It would mean either that the economy was turning down or that total debt was contracting or both. In either case, I believe it would spell recession or depression. It would mean that debt in relation to the GDP was shrinking, and remember, the build up of debt is what has fueled the great boom of 1974 to the present.



INVESTMENT POSITION: If you're heavy in the consumer stocks, you may think a bear market is in progress. Not so; the bull is still in the box. And the various items which I watch and monitor -- are still intact.

But why the cave-in of the consumer stocks (Merck, Coca Cola, Colgate Palmolive, Proctor & Gamble, RJR Nabisco, Home Depot, etc.)? One reason may be what we see on the Household Liquidity chart in this Letter. The American consumer, with savings down to a minuscule 4.1%, has literally run out of money. Liquidity is scraping the bottom, and with the specter of higher taxes, Americans don't want to borrow -- really what they'd like to do is get out of debt.

I wrote earlier that maybe what we're seeing is the Chinese water torture applied to the securities business. Every other stock in the portfolio gets hit, but it's done in calculated steps, so the Averages stay near their highs, even though portfolios are decimated.

Has the bear been sleeping too long (since 1974)? Is this subtle revenge? Are investors to be taken for a ride even before the bear market begins? Ah, history repeats, it always does -- but NEVER in the same way.

What's the best investment position now? Two words describe it -- liquid, conservative. That means T-bills, money market funds, some gold shares, some gold -- and if you're adventurous a little of this and that, but basically be liquid and conservative. Yeah, it's a bore, but who needs the excitement of watching a Coca Cola or a Wal-Mart or a Waste Management slide down the shoot? Believe me there are a lot worse predicaments than being bored.

One more item -- the big stock picture is that the consumer issues are dropping out of favor (have you noticed?) and the cyclicals are capturing the hearts of Wall Street (note the oils, mentioned in the last Letter, are getting a play).

NOTES & QUOTES: Productivity is up in the US as are corporate profits. But unemployment is up too. What we're seeing is a strange case of corporations getting lean, while eliminating unneeded or unwanted workers. Let's call it "Prosperity, 1990s Style." Economist Ed Hyman (*ISI*) tabulates the lay-offs, and his lists are a mind-blower. Sample -- week of March 1 lay-offs: IBM -- 3,000; GE -- 3,900; Northwest Air. -- 123; Dime Bank -- 225, Commonwealth Edison -- 625; Zenith -- 375; GM -- 11,000; United Technologies -- 100; Gen. Dynamics -- 200; Chrysler -- 140; Cincinnati Millicron -- 100; Stone & Webster -- 700; Wang -- 3,300; CompuAdd -- 600. Week of March 8: Macy's --1,500; Dow -- 250; Safeway -- 250; Cin. Millicron -- 6100: Nat. Semi. -- 230; Farmer Jack -- 500; Hilton -- 900. Week of March 15: Northrop -- 2,400; West Pt. Pepperell -- 350; GTE -- 26,000; Nat. Geographic -- 800; Week of March 29: Merck -- 1,000; Centerior -- 1,200; IMC Fertilizer -- 200; McDonnell Douglas -- 219; Wash. DC -- 3,000; and on and on. There were nine more layoffs in March '93 than in March '92.

* *

The untold story: There is reason to believe the real fight in Russia is the battle by the deputies to hang on to perks. The great majority of the Congress of People's Deputies are ex-Communists, and although they claim they are fighting to save Russia, they are probably fighting to save their jobs and their perks. Perks today are much the same as when the Commies were in power. Deputies can shop at special discount stores carrying Western goods. They get free medical care from one of the few top-grade hospitals in Russia. They get cars and drivers on weekends. They have spacious apartments and access to country homes at low prices. They get free plane flights throughout Russia. Said political analyst Anatoly Porokhovsky, "Some might argue that the perks are one of the main underlying factors in this whole fight." Russell comment: I believe it. It used to be said that "Love conquers all." The modern version: "Greed conquers all."

* *

Back in 1922 Lenin, desperate to stabilize prices, brought back the *chervonets,* a 10-ruble note that could also be bought as a gold coin. It turns out that Yeltsin's government last November tried the same thing when it minted 50 and 100 ruble coins backed by gold. The coins were swallowed up in a matter of weeks, hoarded by those who wanted gold or by collectors who loved the beautiful double-headed eagle coins. Too bad the Russians didn't back ALL their money with gold. The ruble would still be "worth its weight in gold".

* *

Signs of the times in Russia: Last year 75% of all Moscow marriages and 62% of all Russian marriages ended in divorce.

* *

The British government is working on plans to end the post office monopoly. Proposals are being made to allow private companies to compete with the Royal Mail for delivery of all letters, providing they match the Royal Mail's commitment to provide a national service at a uniform price. In the Russell opinion, it's just a matter of time before the US does the same (or until FAX puts the US Postal Service out of business).

* *

In 1985 IBM had peak employment of 407,080 people worldwide. By the end of 1992 they were down to 301,542. This year they will cut 25,000 more people. But there are still an amazing 175,000 IBM people just in marketing and sales. In interviews recently, new CEO Louis Gerstner says that if necessary, he will cut another 100,000 from IBM rolls. Said Tom Peters, author of "In Search of Excellence": "If you're trying to bust up IBM, you won't find anybody better (than Gerstner). If you're trying to recreate the glory of yesterday, fat chance. You can't create an IBM like the late '60s. What's my bet? He's only got a 40% chance of pulling off something significant. They want it all. They want this tough SOB who can shape up the troops, can weed out bad assets. But in the back of their minds is this dream that by 1998 we'll have a new IBM that shines like the old. It's nutty."

* *

The new Clinton taxes place an added burden on being married. Clinton promised to lower the tax burden on families with children -- but he made the burden worse. Example: Clinton would impose a 10% surtax on incomes above $200,000. For tax purposes, the incomes of married persons are often combined. So two married persons who each make $250,000 would pay the 10% surtax on half their total income of $500,000. Meanwhile, two single persons, each making $250,000, would pay NO surtax, even if they lived together. Wait, there's more -- a single person can earn up to $115,000 without paying the higher surtax. But two married people, each earning $75,000 would see their marginal tax rate rise to 36% (Clinton proposes to increase the tax rate from 31% to 36% for married persons who together earn more than $140,000).

* *

With all the questions and hoopla about gays in the military, here's an interesting question that I ponder over -- what would the reaction be if the gays came out (via national organizations) and stated that henceforth they will absolutely REFUSE to serve in the military? Can you imagine the consternation this would cause?

* *

Everybody, it seems, wants to write a children's book. What are the best selling kid's books of all time? (1) "The Tale of Peter Rabbit," written in 1902. (2) "Pat the Bunny," written in 1940. (3) "The Littlest Angel," 1946. (4) "The Cat in the Hat," 1957. (5) "Green Eggs and Ham," 1960. The sales of children's books in 1992 is estimated at $1.3 billion, having doubled in the last five years.

* *

Clint & Clinton: Clint finally got his Oscar, and Clinton got, well, at least he's got a sense of humor. At the annual Gridiron Club dinner, Clinton played the saxophone and said of Dole, that he's "one of those rare Republicans who is intentionally funny." Then he stated, "I might have to pick an FBI Director, and it's going to be hard to fill J. Edgar Hoover's pumps." He added, "Whatever you think of the last two administrations, we are forever in their debt." Vice President Gore came off as "204 pounds of bore," and General Powell was portrayed as lamenting for the military with a song from "Kiss Me Kate" -- "Where is the life that once I led." Finally, Senator Dole came up with the clincher, "People worried about the budget keep asking what number to look for, and the number that comes to mind is 1996." They didn't say whether Clinton laughed at that one.

* *

The *Economist* (perhaps the most influential economics magazine in the world) suggests in a lead editorial that "If Western aid goes to the Russian government . . . the government can use the dollars to buy rubles on the Russian market, driving the value of the ruble

up and helping to finance Russia's budget deficit without printing money of its own." Is the *Economist* serious? Save the ruble via manipulation? They must be talking to Washington economists. The only way the ruble can be saved is to back it with gold and make it fully convertible. But the US doesn't want to create a gold-backed currency, since this kind of hard currency would reflect on the fiat (paper) dollar. Thus, no talk of a convertible ruble emerges. Meanwhile, the ruble sinks further and further into worthlessness. Last week the ruble dropped to a new low --- 730 to the dollar.

* *

The price of platinum is now so low that giant Rustenburg Platinum (S. Africa) announced its first production cut in 12 years. To meet contractual needs, it will buy in the open market, where platinum is cheaper than Rustenburg's costs. Well, they aren't getting any of my platinum coins, I'm holding on.

* *

From an editorial in *US News and World Report:* "Now more than 60 million Chinese are middle-class, with enough money for color TVs and washing machines. Over 200 million Chinese will be middle-class by the year 2000. Numbers do not tell everything. The Chinese are pursuing wealth with the same ardor once reserved for class struggles and mass political movements. Their's is an economic revolution from the bottom up, in contrast to Russia's top-down approach. China now has the accouterments of a consumer society -- neon lights, gleaming hotels, smart department stores, fast food, fashion shows, and US soap operas. Urban glitter has replaced socialist grimness."

Russell comment: Two items are at work in China. (1) China's leaders watched Russia's collapse and realized that only free markets could keep them, the Chinese leaders, in power. (2) Television showed the Chinese (as it showed the Soviets) that there's a good life out there, and guess what -- communism wasn't giving it to them. So the Chinese leaders concluded -- dictatorship plus free enterprise, it can work, or for the leaders' sake, it better work.

* *

Speaking of the good life, according to *Vogue* (April), "The least expensive room at the Ritz in Paris for 30 nights will run you $18,120 if you're alone, $20,940 if you're not. Morning coffee? Add on $210 for the month, $420 for two persons. Not to worry, you can still spend April in Paris. Consider Paris, Texas; Paris, Tennessee; Paris, Missouri: Paris, Idaho; Paris, Maine.

* *

Real money: Mary, Lady Fairfax, of the Australian newspaper fortune, wanted a place to stay in NYC. So she bought 3 (three) floors of the swank Pierre Hotel, the 41st, the 42nd and the 43rd floor, in case you're interested. Price: $12 million. As I said, that's real money.

* *

Question: How many Italian politicians does it take to change a light bulb? Answer: None; the odds are that they'll be out of office before your bulb burns out.

* *

When I was a kid in NYC during the depressed 1940s, the ultimate crime was buying anything at retail. With today's intense competition via K-Mart, Walmart and I don't know how many others marts, price competition in the stores is intense. But retailers still account for 97% of the $35 billion that is spent on furniture every year. Nevertheless, there are discounters who offer big savings. Furnitureland South in High Point, NC, is a giant discounter with a showroom the size of five football fields. They have no catalogue (they'd get in trouble with manufacturers who sell to retailers if they did), but if you call them at (919) 841-4328 with the model number of the furniture you want to buy, they'll give you some really interesting discount info. Try it.

* *

If I had to leave California, I'd probably move to Austin, TX. Austin now has 450 high tech firms, drawn there by relatively low living costs and NO state income tax. The jobless rate is down to 5%, and Austin is the home of the University of Texas with 49,000 students and 20,000 employees. From what I gather, nice homes run from $80,000 to $180,000 and deluxe homes run from $180,000 to $450,000. See what you get in San Diego for $450,000. (Of course you do get the nation's best weather and the blue Pacific Ocean. That plus the fact that my family is here is why I still stay here.)

No, I'll be honest. The quality of life here in San Diego, and more specifically in La Jolla, is the best I've seen anywhere. Communications are terrific (*London Financial Times* is sold on a street outlet-box), I can get three 24-hour radio stations, ocean, mountains, desert all within easy reach, culture, beach atmosphere, 365 days a year of outdoor living. But everything's a trade-off, and today the trade-off is crime, heavy traffic and heavy taxes. I guess you could say that La Jolla is "Paradise Lost," but it's still the nearest place to heaven that I can find.

However, not everyone agrees. Here's a letter that recently appeared in the San Diego Union:

> After more than 30 years in San Diego, I have shaken the dust of California from my boots and moved to Texas. California can have its Pat Brown, Jerry Brown, Kathleen Brown, Willie Brown, and all the other Brown-types who have made the place dangerous and expensive. I've moved to the land of no state income tax, low gas prices and a low cost of living.
>
> I have been amazed at the way the state income tax ripples through the economy. It's not just the 11 percent off the top, it's the effect on all other prices. I eat out for about 45 percent of what I had to pay in San Diego, and all other prices seem to follow the same pattern.
>
> Where Willie Brown works hard at looting businesses, Texas welcomes anyone who generates jobs. The difference in point of view shows in the rate at which Austin is growing.
>
> Come to Texas, Californians. You have nothing to lose but your taxes.
>
> J. THOMAS BAYLOR
> *Austin, Texas*

* *

The fight for America's oldest newspaper, the *New York Post,* goes on. I have a special interest in the *Post* because my late father-in-law, Max Lerner, was a featured columnist on the *Post* for many years. The bitter initial takeover fight was between Abe Hirschfield and Peter Kalikow. But now it looks like Rupert Murdoch will be the new owner, and that isn't all bad. Said a *Post* reporter, "At least we'll be operating with a professional, as opposed to a madman like Hirschfield and a thief like Kalikow."

* *

My father was a Southerner (born in Orangeburg, S. Carolina and raised in Charleston), so I have a soft spot for the South. Therefore, southern subscribers, don't be insulted by the following by Florence King in last Sunday's *LA Times* magazine: "If Southern men talk alot, it's because they have spent 300 years explaining the South to the rest of the country. First they had to explain slavery, then segregation, then their objection to the civil rights movement. And now backpedaling former firebrands like George Wallace are explaining what it means to have 'mellowed.' Given three centuries of men talking the hind legs off a mule, the end result was bound to be Bill Clinton . . . As Clinton continues losing his voice, going hoarse at closer and closer intervals until its completely gone, remember that good ol' boys are America's original wonks."

* *

And speaking of Clinton (which I do, alot), San Diego county is the most Republican county in California. Perusing the classifieds of our local paper last Sunday I came across an ad which read, "Impeach Clinton, bumper stickers $3" along with an address. Hey, I'm no Clinton fan, but isn't it a little early for impeachment? And three bucks is too much for a bumper sticker.

* *

There are a lot of so-called Keynesians in Washington, but I wonder it they ever read this quote by John Maynard Keynes: "There is no subtler, no surer way of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which only one man in a million is able to diagnose."

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How are the prices running on prime real estate around the world? Here's the story: Most expensive is Tokyo at $3,000 ($ per square foot per year); Monte Carlo, $2,000; Paris, $1,300; Milan, $1,250; London, $1,200; New York, $1,000; Hong Kong, $770; Zurich, $675; Berlin, $550; Sydney, $365; Brussels, $335; Amsterdam, $275; Toronto, $250 (courtesy the *International Herald Tribune).*

* *

How can they do it, how can Congress cut our Social Security benefits after we've paid taxes for years (I hate to think of how long I've been paying those damn taxes)? Easy, the original law allows Congress to change the rules anytime, and they've done it 18 times already. One of my kind subscribers sent me this "Notice," which is the original 1936 poster. Read it and weep.

NOTICE

Deductions from Pay Start Jan. 1

Beginning January 1, 1937, your employer will be compelled by law to deduct a certain amount from your wages every payday. This is in compliance with the terms of the Social Security Act, sponsored and signed by President Roosevelt, August 14, 1935.

The deduction begins with 1%, and increases until it reaches 3%.

There is no guarantee that the fund thus collected will ever be returned to you. What happens to the money is up to each congress. No benefits of any kind before 1942.

This is NOT a voluntary plan. Your employer MUST make this deduction. Regulations are published by the Social Security Board, Washington, D. C.

Printed on Recycled Paper

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The Conference Board's Consumer Confidence Index fell in March for the third month in a row. Now why should consumers be less confident, what with a new President and all those new Congressmen and women? The answer is not hard to figure out. At an estimated $328 billion, Clinton's new tax increases are the biggest in US history. Kevin Phillips is becoming the champion chronicler of current American politics and mores. Here's a piece of a recent column by Phillips.

■ **Politics: Clinton was elected with a mandate to raise the taxes of the well-to-do. But with all his plans, he's beginning to look like a taxaholic.**

By Kevin Phillips

WASHINGTON

Just as some kids become chocoholics, some politicians become taxaholics. Bill Clinton, for one, is starting to look like one—which helps explain his declining job approval, the growing skepticism toward his economic program and the resurging popularity of America's fiscal watchdog, Ross Perot.

Public concern about rising tax burdens is well-founded. The average family must worry that the $300-$400 more a year they're likely to pay in new energy taxes could double or triple if that tax gets established, and enactment of the suggested national sales tax could mean an even bigger nibble.

Meanwhile, upper-middle-class business people and professionals, especially the self-employed, are seeing their late-1980s memories of combined federal and state marginal tax rates of 30%-35% prospectively replaced by 45%-50% rates because of new brackets, self-employment levies and surtaxes. The 1990s are becoming a tax-increase decade.

However, though Congress was busy last week passing budget resolutions that ratify the outlines of the President's economic program, the final congressional decisions on whose taxes will go up and by how much are still months away. Indeed, current polls assert that portions of Clinton's program could be in serious trouble unless he can provide new and convincing answers to an all-important question: How can Washington revitalize the U.S. economy and refurbish the American Dream by raising a slew of federal taxes when the average American family is already paying at record peacetime levels?

NEXT MAILING:

April 28, 1993

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Note: I want to thank all those subscribers who sent me information and papers on the Federal Reserve. How the US Constitution was subverted regarding the creation of money and how the US' money-creation power was turned over to a private institution is a fascinating subject, and it's an area that I'm particularly interested in.

* *

Speaking of money, the long T-bonds have boomed, and one reason is a rumor out of Wall Street that the Treasury will cut way back on its issuance of long-term debt (maybe cut it in half), and also cut down on the frequency of T-bond auctions. Ah yes, anything to keep those long rates down. Of course what this does is throw an increasing amount of government debt into the shorter-term area, making the short term more volatile.

However, not all is manipulation. The Eurodollars are at new highs, and the Euro market cannot be manipulated. For whatever reason, the short rates are very low and staying low. What could be the reason? Mmm, how about little borrowing demand? The fact is that industry is trying to clean up its balance sheets and small business is struggling and is not in the mood to borrow. Any way you look at it, there's just no pressure on interest rates. And that's one of the major plusses, one of the major props under the stock market.

* *

Microsoft, the terror of the software-computer world, combines laid-back style with workaholic habits. Dress code is anything you feel like -- jeans, T-shirts, sneakers, and there's a basketball hoop at the end of every hall. But Microsoft encourages employees to work around the clock by keeping their bargain-priced food and free drink cafeterias open 24 hours around the clock.

GOLD: I continue to believe (I can't prove it) that there's a war against gold. The one thing the public understands about monetary matters is that when gold rises in price that represents inflation and more important -- it represents preference for the metal over dollars. That kind of thinking is something neither the US Treasury nor the Fed can abide. Is gold being manipulated (via futures or options) every time it pops its head above 335? To me, it acts like it, but obviously I can't prove it.

I do know one thing -- total US debt continues to expand, and ultimately this debt must and will be inflated away (the latest Producer Price Index rose at an annualized rate of 5%; at a 5% rate of inflation the dollar loses half its purchasing power in 20 years).

That's why knowledgeable investors hold gold. They know that ultimately (particularly under Clinton) there will be a move out of financial assets and into tangible wealth -- gold. So subscribers, sit tight with your gold and gold stocks. Let me put it this way -- every time I look at the Clinton budget I feel like going and buying a handful of gold coins.

LATE NOTES: Transports have risen to new record high but the Industrials are still below their **3478.34** record high. Therefore, a non-confirmation exists. An all-clear will be signaled **IF** the Dow can rally to a new high. The market has become very erratic, and, obviously, there's a good deal of distribution going on amid very heavy volume. But make no mistake about it -- the "BUYING STAMPEDE" which I have been writing about in recent Letters (amazingly, nobody else has recognized it) is still very much intact.

There's been no decline of as much as one point in the A-D ratio since last October (see page 2 chart). Buying stampedes are fairly rare -- they represent a persistent (usually frenzied) desire to get out of cash and into stocks.

The Treasury and the Fed are using every device possible to keep interest rates low with the latest gimmick being the probability of a major decrease in the quantity of 10-year and 30-year T-bonds to be issued. In fact, two widely-hold concepts act as supports for this most expensive stock market in history: (1) There will be no inflation in the foreseeable future, or "inflation is finally under control," and (2) Interest rates are the lowest in decades, and there is no chance that they will be rising anytime soon. These are two of the mainstays of this bull market, and any changes in these perceptions would endanger the bull.